

STANDARD & POOR'S

Steven J. Murphy
Managing Director
55 Water Street, 38th Floor
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reference no.: 669030

May 25, 2004

City of Lynchburg
City Hall
900 Church Street
Lynchburg, VA 24505
Attention: Mr. Michael W. Hill, CPA, Director of Financial Planning

Re: ***US\$7,175,000 City of Lynchburg, Virginia, General Obligation Public Improvement Bond Anticipation Notes, Series 2004, dated: June 1, 2004, due: June 1, 2005***

Dear Mr. Hill:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "SP-1+". Standard & Poor's views the outlook for this rating as not meaningful. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would

Mr. Michael W. Hill, CPA
Page 2
May 25, 2004

facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

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Sincerely yours,

Standard & Poor's Ratings Services
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By: Steven J. Murphy
Managing Director

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cc: Mr. W. Frank Williams, III, Vice President
BB&T Capital Markets

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Steven J. Murphy
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reference no.: 669029

May 25, 2004

City of Lynchburg
City Hall
900 Church Street
Lynchburg, VA 24505
Attention: Mr. Michael W. Hill, CPA, Director of Financial Planning

RECEIVED

JUN 8 - 2004

FINANCIAL SERVICES

Re: ***US\$27,250,000 City of Lynchburg, Virginia, General Obligation Public Improvement Bonds, Series 2004, dated: June 1, 2004, due: June 1, 2005-2034***

Dear Mr. Hill:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "AA". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would

Mr. Michael W. Hill, CPA
Page 2
May 25, 2004

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cc: Mr. W. Frank Williams, III, Vice President
BB&T Capital Markets

Publication date: 26-May-2004
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Lynchburg, Virginia

Credit Analysts: Baltazar Juarez, New York (1) 212-438-7999; Kenneth A Gear, Washington D.C. (1) 202-383-3540

Credit Profile

US\$7.175 mil GO pub imp
BANs ser 2004 dtd 06/01/2004
due 06/01/2005
SP-1+
Sale date: 08-JUN-2004

US\$27.25 mil GO pub imp
bnds ser 2004 dtd 06/01/2004
due 06/01/2005-2034
AA
Sale date: 08-JUN-2004

AFFIRMED
Outstanding GO bnds
AA

OUTLOOK: STABLE

Rationale

The 'AA' long-term rating on the City of Lynchburg, Va.'s series 2004 and outstanding GO bonds reflects:

- A diverse and stable local economy that serves as a regional employment base and retail center;
- Good financial operations bolstered by financial policies and good planning practices; and
- A moderate debt burden with a manageable a future capital plan.

Offsetting factors include below-average wealth levels, and above-average unemployment.

The city's series 2004 BANs have been rated 'SP-1+'.

The BANs and bonds are secured by the city's full faith and credit GO pledge. The note rating reflects the city's long-term 'AA' GO credit rating and a demonstrated track record of strong market access when issuing bonds and notes. Series 2004 note and bond proceeds will be used to fund several city projects.

The City of Lynchburg encompasses 50 square miles approximately 14 miles from the geographic center of the commonwealth. The city's population is estimated at 66,800, and has remained fairly stable over the past decade. Lynchburg's local economy serves as an employment and commercial center for a four-county metropolitan area. Indeed, per capita retail sales are at 200% of the commonwealth and 194% of the national level. Within the city, the service sector is now the city's leading employment sector and accounts for 29.5% of employment, followed by manufacturing at 23.0% and trade at 20.7%. However, the manufacturing sector remains the city's leading income source, accounting for more than one-third of county residents' income. The city's largest employer is Centra Health Inc., a health care provider, with 4,000 employees. Other leading employers in the area include Areva (1,700, maintenance and repair of nuclear power plants); Central Virginia Training Center (1,600, health care); and Lynchburg City Schools (1,554). Unemployment levels peaked at 6.7% during the last recession and declined gradually throughout the mid-to-late 1990s to a low 2.1% in 2000. As a result of the economic downturn and the closure of Ericson Electronics--which in 2000 had 3,500 employees--the city's unemployment rate increased over the past three years. Through February 2004, the unemployment rate was 5.64%, which is still above the commonwealth's 3.75%, but below the nation's 6.07%.

While Lynchburg serves as an employment and commercial center for the region, the city's wealth levels remain well below the commonwealth and national average. Median household effective buying income is 71% of the commonwealth and 78% of the national levels. Similarly, per capita effective buying income is 76% of the commonwealth and 84% of the national levels.

The city's tax base is large, exhibits no taxpayer concentration, and has been increasing at a healthy pace. Lynchburg's 2003 tax base totaled \$3.6 billion, or a moderate \$55,222 per capita market value. Over the past six years, growth in the tax base has been healthy, averaging 4.8% annually. Strong ongoing building activity has contributed to this growth. In 2003, the value of building permits peaked at \$147.5 million and over the past four years, the

value has averaged \$122.7 million annually. The bulk of the construction activity has been for commercial projects. In 2003, the commercial construction accounted for 72%, while residential accounted for 28%. Moreover, there is no concentration in the tax base, with the 10 leading taxpayers accounting for only 11% of the tax base.

Outlook

The stable outlook reflects the expectation that the city will continue to maintain good financial operations, a healthy fund balance, and manageable debt service.

Finances & Debt

Through conservative budgetary practices and a diverse revenue stream, the city's financial position remains strong. Fiscal 2003 ended with a small deficit of \$723,800. The ending unreserved general fund balance totaled \$20.9 million, or a strong 15.6% of expenditures and transfers out--exceeding the city's formal policy of 10% of expenditures. For the fiscal year ending June 30, 2004, management projects a small surplus and reserves in line with fiscal 2003, and well above the 10% policy.

The city's overall debt burden remains moderate at \$1,841 per capita, or 3.4% of market value. Debt service carrying charges remained low at 5% of expenditures in fiscal 2003. Amortization on the series 2004 bonds is slower than average, with final maturity in 2034.

The city's formal 2004-2009 capital improvement plan is manageable at \$187 million. The majority of projects will be used to finance general improvements city improvements (\$75 million), followed by water and sewer projects (\$45.8 million), and airport projects (\$15.9 million). Sources for financing the plan include proposed bond issues totaling \$116.9 million. Another \$63.2 million is expected to be financed by state, federal, and pay-as-you-go financing, while the remaining will be financed by revenue bond issues or Virginia revolving loans.

The city also faces continued challenges in its sewer operations. Since 1989, the city has faced a state order to address a combined sewer overflow (CSO) problem. The ongoing project requires the complete separation of storm water and sewer systems. A 2000 update of the plan to address the CSO problem estimated the cost at \$199 million over the next 15-20 years.

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